DEFENSE EQUIPMENT AND SERVICES

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19-03-2001

Summary

Portugal offers a steadily expanding market for U.S. goods and services. Market entry opportunities are available for companies willing to establish themselves by offering quality products, competitive pricing and after-sales service. U.S. firms should not be discouraged by the apparent small size of the market. U.S. exports to Portugal are roughly double the official figure. Many American firms indirectly export to Portugal through distribution channels in other European Union (EU) countries due to tax and logistics benefits.

With government incentives, Portugal is an attractive market to invest in production facilities. With access to the EU countries, it is a good place to establish distribution facilities.

Market Overview

U.S. firms interested in selling in Portugal generally start by appointing an agent or a distributor. The establishment of local facilities that may take the form of wholly owned subsidiaries, joint ventures or franchising may follow this. Most marketing techniques valid in other EU countries are valid in Portugal.
However, the special conditions of this market, where buyers are well identified and have very well defined characteristics, reinforce the need for a sales force capable of maintaining continued personal contacts. The appointment of local agents or the establishment of local offices staffed with local executives is strongly recommended.

The above reasons are enough to demonstrate the need for a local sales force, but, at least an office. Portugal, as an EU member, is still a net recipient of EU structural and cohesion funds that may create a general tendency to favor EU companies even in fully open international tenders. U.S. firms may qualify to bid on EU-funded projects by partnering with an EU-based company.

The Portuguese Armed Forces are undergoing a thorough modernization program with the financial assistance of U.S. and European countries. Three new frigates (early 1990s), 20 F-16 aircraft and substantial amounts of tanks, armored personnel carriers, air defense artillery and other army assets have gone to the Portuguese military through grants, loans, offers of excess defense equipment and Foreign Military Sales.

Portugal is also completing the last phase of a wide-ranging privatization program that generated $17.2 billion in proceeds between 1989 and 1997. Privatization reduced the state-owned enterprise presence in the economy to less than 10 percent in 1997 from almost 20 percent in 1989. The Government of Portugal (GOP) plans to continue its privatization policy through public offerings of several companies including TAP-Air Portugal, Gas de Portugal, the Portuguese Airport authority, and the agricultural giant EPAC. There will also be second and third offerings of other companies, including CIMPOR (cement), GALP Energia (State Oil Co.) EDP (electricity), and PORTUCEL INDUSTRIAL (paper, pulp, cellulose).

The defense sector is being reorganized through the creation of a private structure under state ownership. In 1997, the Portuguese Government created a company, Empordef-Empresa Portuguesa de Defesa, SA to hold its 100 percent ownership of OGMA and INDEP. OGMA overhauls and repairs both civil and military aircraft, engines, accessories, avionics, and ground equipment. The current cooperative production arrangements at OGMA are: a Lockheed-Martin service center for work on P-3 Orion and Hercules (C-130) aircraft, a Litton aerospace products repair station for maintenance of inertial platforms, and an Allison Gas Turbine Division authorized maintenance overhaul center. OGMA should be considered a potential area to meet offset requirements for any commercial military or aeronautical sale.

INDEP is a joint-stock company which may undergo a 50 percent privatization. INDEP studies, develops, produces, tests, overhauls and trades defense products. Its management is expressing an increasing interest in cooperative and non-military dual use programs. Its current activity, however, is only manufacturing ammunition.

Through INDEP, Empordef also became the owner of the following shares: 100 percent IDD-Industria de Desmilitarizacao de Defesa, SA (obsolete ammunition disposal), 51 percent of SPEL-Sociedade Portuguesa de Explosivos (manufacturer of military and industrial explosives), 38 percent of EID (electronics investigation and development), 33 percent of EDISOFT (software development), 40 percent of NAVALROCHA-Sociedade de Construcao e Reparacao Navais, SA (shipbuilding and repair industry) and 30 percent of SUBLOC-Locacao de Submarinos, SA (leasing of submarines). Empordef's charter centers on a five-year investment and development plan for the Portuguese defense industry. It is the decision-maker for investments required to modernize and to expand the Portuguese defense industry. Privatization in this sector is being discussed. While nothing is being decided regarding the privatization of OGMA or INDEP, the smaller non-military participation gained through INDEP is expected to be sold soon.

Market Trends

The Portuguese military sector has experienced recent declines in both personnel and spending. Although nominal spending shows an increase, real buying power is down and is holding at less than 5 percent of the national budget. Because Portugal is in the lower income category of the EU, it has been the recipient of financial assistance for most major acquisitions and will continue to try to utilize these programs to the greatest extent in the future. Defense spending in 1999 was approximately US $2.5 billion. That was 2.3 percent of GDP and represents a 2 percent increase over 1998 spending and a 4.5 percent increase over 1997 spending. Almost 8 percent of the 1999 defense budget or approximately US $194 million was earmarked for procurement. Similar figures were reported for 2000 and 2001.

Import Market

The Portuguese market for defense equipment and supplies includes almost no locally produced equipment and supplies. Everything in the defense sector is imported except for some repair equipment and ammunition. The Portuguese defense industry is limited to two Government-owned companies, one that either overhauls and repairs military aircraft engines, accessories, and avionics ground equipment; and the other which produces small arms ammunition.

Competition

Us firms interested in the Portuguese market face practically no competition from domestic companies. The Portuguese domestic defense industry sector consists of a state owned holding company that controls 100 percent of the stock of the three manufacturing companies and owns interest in five other companies in complementary sectors. Several private firms throughout the world market Portuguese defense products but the overall volume of business is very small. Business has decreased in size and importance in recent years, but is still active. The principal state owned manufacturing companies are OGMA and INDEP.

The Portuguese Armed Forces are undergoing a thorough modernization program with the financial assistance of U.S. and European countries.
Countries that have sold or provided major equipment to Portugal are:
The United States: Shipboard systems (torpedoes, missiles, gas turbine engines, gun systems), combat aircraft (A-7 & F-16), patrol aircraft P-3), logistical aircraft (C-130), and nearly all army systems/armaments.

Germany:
Combat aircraft (Alfa Jets), shipboard hulls and diesel & mechanical platforms.

France:
Helicopters (Puma & Alouette), and shipboard gun systems.

United Kingdom:
Shipboard helicopters (Super Lynx).

Netherlands:

Shipboard combat data systems.

Spain:
CASA-212 transport aircraft

Sales Prospects

In order to stretch limited budget resources, new systems acquisitions will be tightly controlled with financial incentives remaining a key part of the negotiation. There will be an ongoing need for logistical support in addition to periodic planned upgrades. Major planned or desired acquisition and upgrade projects are listed below by service:

Army:
Air defense, helicopters, artillery wheeled armored vehicles, and simulations.

Navy:
Submarines, ocean going patrol craft, amphibious assault ships, mine warfare, missile system improvements, shipboard self defense systems, equipment upgrades for marines, hydrographic/oceanographic outfitting for new ships, and communications enhancements.

Air force:
New squadron of F-16 aircraft with mid-life upgrades and AMRAAM missiles; ground radar upgrade, and self-protection suites for aircraft and SAR helicopters.

The Ministry of Defense (MOD) defense plan is to provide for the external defense of Portugal's territorial areas, to contribute to the European defense by maintaining NATO and WEU force structures, and to stay involved with former Portuguese colonies in Africa and with Brazil. This plan provides the impetus for these procurements.

Market Access

While major acquisitions will be the responsibility of MOD, the individual military services generate their own requirements which are submitted for approval to the Parliament. Once approved, the services will receive budget authorization, with supervision and control by MOD and Parliament. Contracting and negotiation are generally open bid processes with intense negotiations usually occurring after preliminary bids are received. There are no barriers to U.S. Companies wishing to do business with MOD, but there will be continuing pressure by the EU to buy from within Europe. Contracting offices within the services are specific for different types of procurements. The first point of contact for discussion of requirements and potential interest in new products, however, will be the logistical division at each of the Military Service's headquarters.

Acquisitions of defense equipment valued at over 5 million dollars are subject to offset programs. A Permanent Exchange Committee (CPC), to set priorities, coordinate and control general offset procedures and proposals, was created. It includes representatives of DGAED (General Directorate of Armament and Defense Equipment), and the three branches of the Armed Forces, plus DGI (General Directorate for Industry), ICEP (Investment Commerce AND Tourism Promotion Agency of Portugal) IAPMEI (Investment and Small and Medium Sized Industries Support Institute) and INETI (The National Institute Of Engineering and Industrial Technology).
The Government of Portugal(GOP)emphasizes sustainable offsets, and favors projects with products and sectors that have a high level of technology, including aeronautical, telecommunications, informatics and electronics. Portugal is eager to obtain the transfer of new technologies. Foreign companies, which propose manufacturing, licensing or joint ventures with local companies in sectors involving new technologies, are at an advantage. Training is only considered a good proposal if it is linked with product marketing and risk sharing.

The, Portuguese Minister for Defense, however, announced recently that offset programs should be phased out in the medium term and replaced by a system of regional partnering to obligate the countries involved both, in the production and the purchase of the equipment.

Trade Laws

Since May, 1988, Portugal has adopted EU directives regarding exportation. Portuguese exporters need to obtain an export declaration before they ship their merchandise. The export declaration is used for Portuguese Customs purposes. Portuguese Customs has recently approved the implementation of simplified export regulations. This allows authorized exporters and express mail operators to export merchandise directly from their establishments. They are only required to present a commercial invoice to the Customs authorities.

Foreign Investment

Foreign investment is an essential part of the Portuguese Government's overall strategy to modernize the economy. A key objective of the government's 2000-2006 Regional Development Plan (PDR) is to boost international competitiveness through increased foreign investment in transportation, telecommunications, energy, agriculture, fisheries and tourism.

A simple post facto registration regime for foreign investment took effect in Portugal as of December 4, 1995. The new regime responds to the need for simpler procedures in the new context (since 1992) of fully liberalized capital markets. Under the new regime, foreign investors need only register with the Foreign Trade, Tourism and Investment Promotion Agency (ICEP) within thirty days from the day the foreign investment is made. The regime is designed to obtain administrative or statistical information and applies to all foreign investors, EU and non-EU alike.

Import Restrictions

Because Portugal is a member of the EU, the majority of imported products have been liberalized. However, there are certain products, which require import licenses, called import certificates, for strategic/dual use products. For dual use products a certificate of delivery may be required. There are also some licenses required for the import of textile products and some industrial products from certain countries, although not from the United States. Applications for import licenses should be submitted to the General Directorate of Foreign Trade. Tobacco, alcoholic beverages and automobiles are still subject to some import controls, generally resulting from bilateral agreements. Import barriers including duties, have restricted imports of these products from the United States.

Product Standards

Portugal follows the EU directives closely and, as a GATT member, adopts the European Committee for Standardization (ECS) standards for a number of products including low voltage electrical material, construction equipment/machinery, gas cylinders, boilers, and telecommunications peripheral equipment. These standards, however, are only mandatory after publication as a Portuguese law. If American exporters wish to be exempted from European security standards, they must demonstrate through a certifying entity that the products offered meet equivalent security standards.

Intellectual Property Protection

Consistent with the accession to the EU, the Government of Portugal published on August 30, 1991 Decree 52/91 which ratified the Munich Convention of European patents. Portugal passed a new Code of Industrial Property that took effect on June 1, 1995.